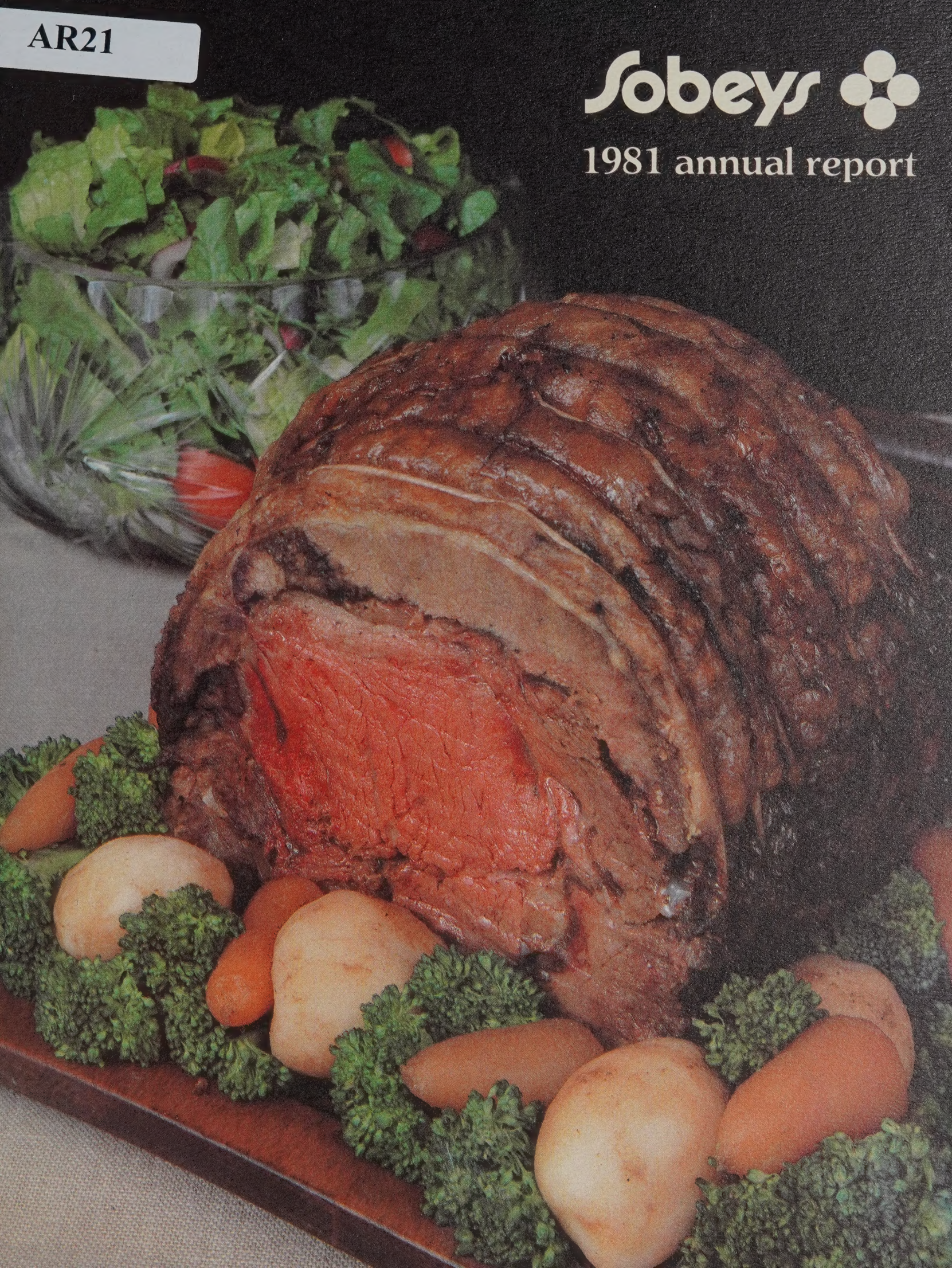
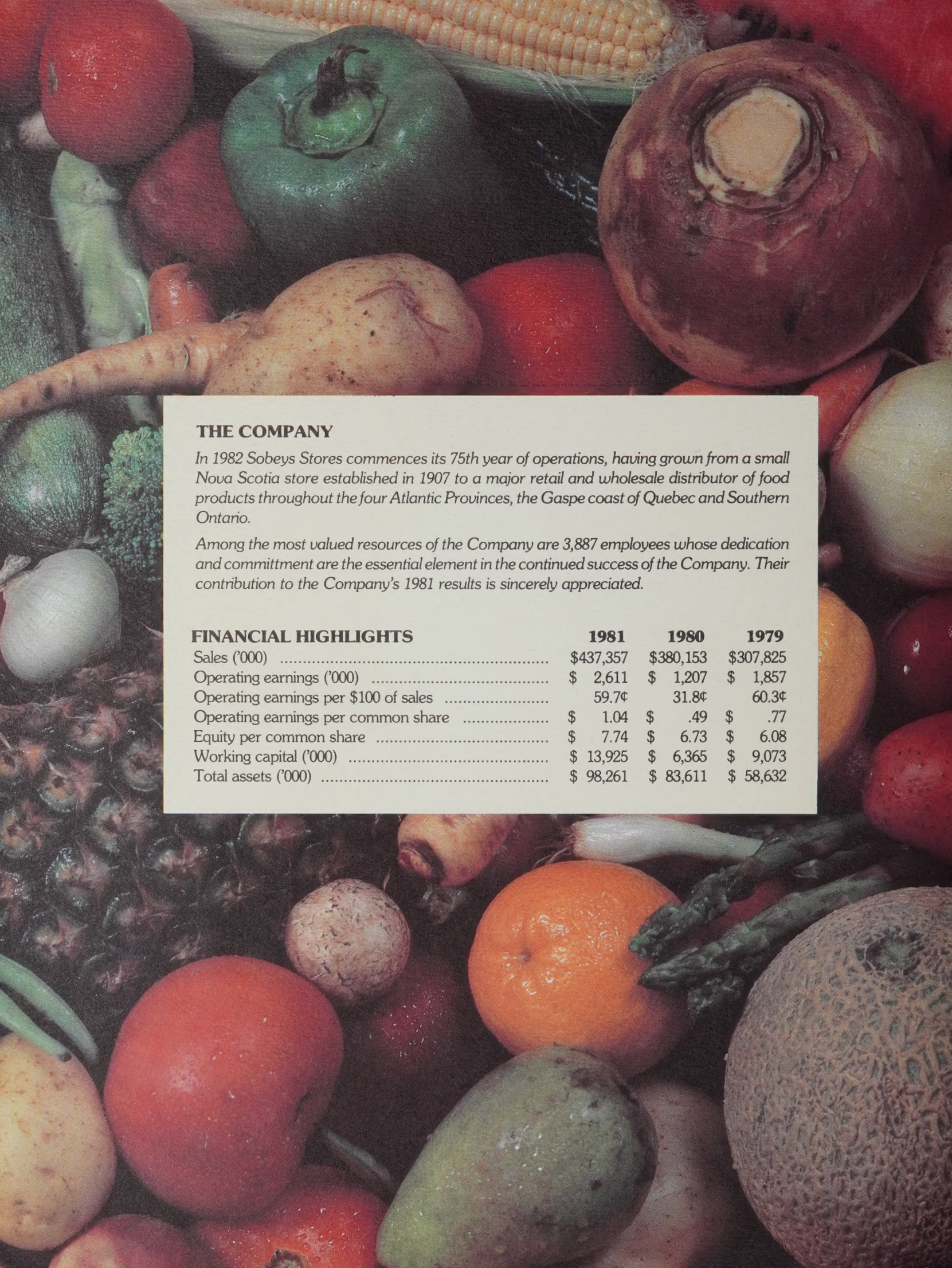
AR21

Sobeys

1981 annual report





THE COMPANY

In 1982 Sobeys Stores commences its 75th year of operations, having grown from a small Nova Scotia store established in 1907 to a major retail and wholesale distributor of food products throughout the four Atlantic Provinces, the Gaspe coast of Quebec and Southern Ontario.

Among the most valued resources of the Company are 3,887 employees whose dedication and committment are the essential element in the continued success of the Company. Their contribution to the Company's 1981 results is sincerely appreciated.

FINANCIAL HIGHLIGHTS	1981	1980	1979
Sales ('000)	$437,357	$380,153	$307,825
Operating earnings ('000)	$ 2,611	$ 1,207	$ 1,857
Operating earnings per $100 of sales	59.7¢	31.8¢	60.3¢
Operating earnings per common share	$ 1.04	$ .49	$ .77
Equity per common share	$ 7.74	$ 6.73	$ 6.08
Working capital ('000)	$ 13,925	$ 6,365	$ 9,073
Total assets ('000)	$ 98,261	$ 83,611	$ 58,632

FUTURE OUTLOOK

Entering our 75th year of operations the Company has accelerated its expansion program with the planned opening of 7 new supermarkets and several Lofood "box store" units together with the renovation of 4 supermarkets. In addition, planning is underway for a 20,000 square foot expansion of the Newfoundland wholesale grocery distribution facility.

Capital expenditure committments for the 1982 fiscal year are in excess of $7 million. Continued high interest rates during this period of expansion will have a negative effect on the shorter term profitability of the Company.

The wholesale grocery and produce divisions of the Company are anticipated to make increased contributions in 1982, and actions are being implemented to reduce the losses of the food service division.

The introduction of new merchandising concepts based on limited variety and limited service generally known as "box stores" or "warehouse markets", could result in greater competition for the retail food dollar and reduced operating margins for the food industry. The merchandising activities of the retail division are being geared to meet this challenge.

Product Packaging - Clover Produce

TRA Foods Wholesale Cash & Carry, Truro, N.S.

Take-A-Break, Halifax, N.S.

Lofood, Burlington, Ontario

Scanning, Using Current Technology

THE YEAR IN REVIEW

1981 was a year of continued expansion of all segments of the Company's operations. Consolidated sales increased 15% to $437 million, and consolidated earnings from operations increased to $2,611,000 or $1.04 per common share. In addition, net gains on sales of marketable securities were $430,000 or 18¢ per common share resulting in net earnings for the year of $3,041,000 or $1.22 per common share.

The net improvement in profitability during 1981 principally resulted from the wholesale division's recovery from the unsatisfactory results of the prior year. The food service division continued to show unsatisfactory levels of performance as did the results of joint venture operations. The substantial increase in interest on current debt placed added pressure on operating profitability.

Cash flow from operations amounted to $7,317,000 or $3.14 per common share. This amount together with proceeds of financing during the year was used for net additions to property and equipment of $6,163,000; reductions in long term debt and capital lease obligations of $1,758,000 and dividend payments to shareholders of $422,000. Working capital at May 2, 1981 amounted to $13,925,000, an increase of $7.5 million over the prior year.

During the year the Company completed a public offering of $10 million 9% cumulative redeemable convertible preference shares. These shares which have since been listed for trading on the Toronto and Montreal Stock Exchanges, are convertible into Class A common shares prior to April 1, 1989 at a price of $15.50 per share during the first four years and $16.75 per share during the second four years of the conversion period. The costs associated with this share issue have been charged against retained earnings.

On February 13, 1981 the Class A and Class B common shares of the Company were subdivided on a three for one basis. In addition, the annual dividend rate on Class A and Class B common shares was increased by 50%.

The Company maintains a portfolio of marketable securities of listed public companies. As at May 2, 1981 the consolidated book value of these investments was $23,650,000 and the quoted market value was $65,657,000.

The largest holding in this portfolio consists of approximately 22% of the common shares of Provigo Inc., a

Quebec based company engaged primarily in the wholesale and retail distribution of food, pharmaceuticals and general merchandise throughout Canada and parts of the United States. In its 1981 fiscal year the net income of Provigo was $24.5 million on sales of $2.6 billion. This investment is accounted for on the "cost" basis whereby only cash dividends received are included in income.

In the 1981 fiscal year the Company satisfactorily concluded two year collective bargaining agreements covering seven locations where existing agreements had expired.

The Company presently has negotiations underway covering two contracts which expired subsequent to the fiscal year end and is optimistic that satisfactory agreements will be concluded without disruption of operations.

Media Advertising - Highlighting Freshness

In-Store Bakeries - A Popular Department

4331 Computer System At Work

Lumsden Brothers, Burlington, Ontario

RETAIL OPERATIONS

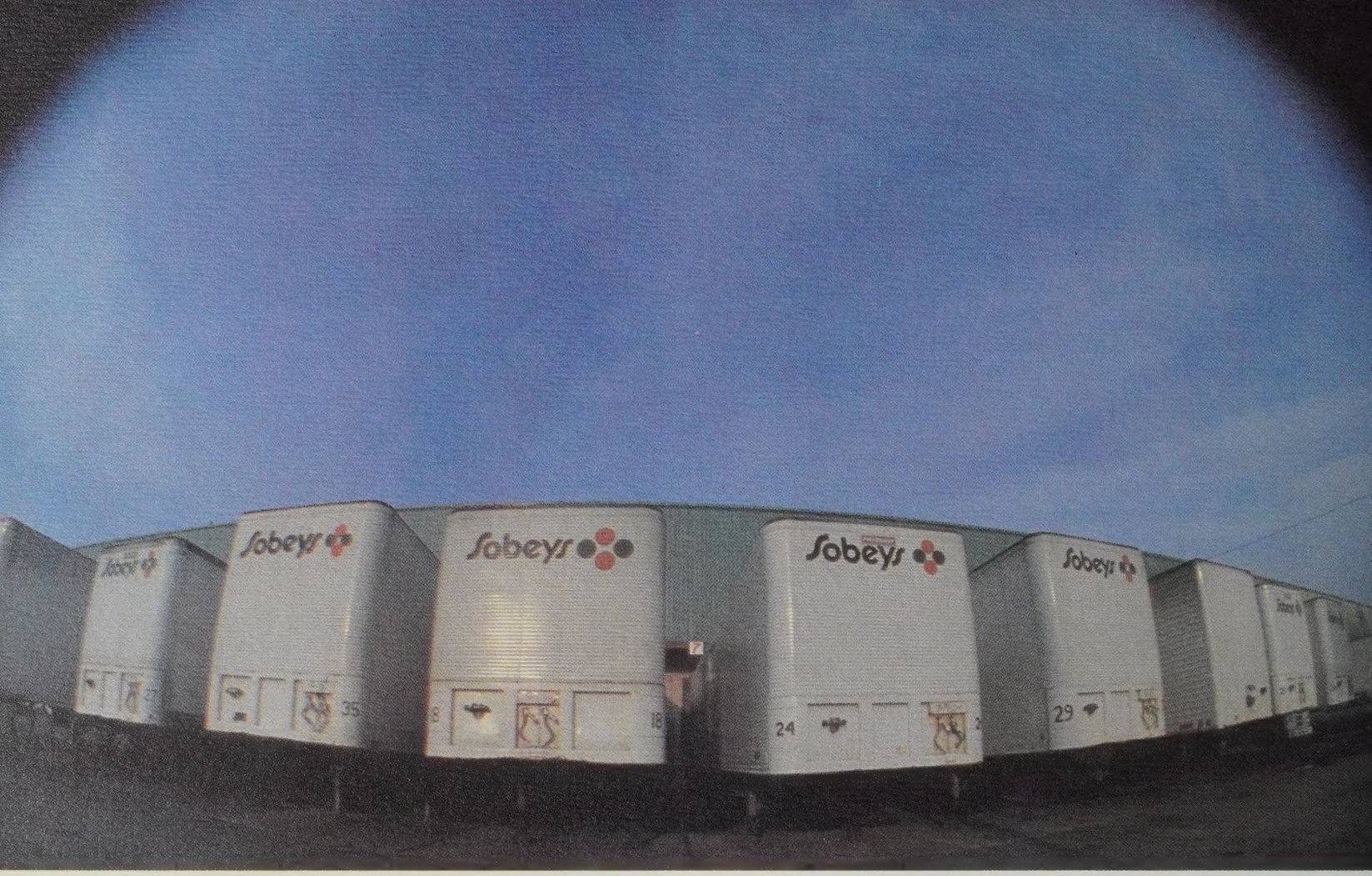
During the year new supermarkets were opened in Corner Brook and St. Anthony, Newfoundland; Sydney Mines, Nova Scotia; Fredericton, New Brunswick; and Gaspe and New Richmond, Quebec. Major renovations were undertaken in St. John's, Newfoundland; Sydney and New Glasgow, Nova Scotia and Moncton and Edmundston, New Brunswick. Four units were closed during the year. At year end the Company had 7 supermarkets scheduled for opening during the 1982 fiscal year and four major renovations in planning.

The main retail distribution centre in Stellarton completed its expansion during the year. This resulted in a doubling in size of this facility which is now fully operational with a high level of efficiency in operations.

The initial costs associated with the Company's aggressive expansion and renovation program have had a negative impact on short term profitability. This was largely offset by increased sales; cost controls and improved product mix resulting in better operating margins during the year.

Retail operations continued to improve customer acceptance through emphasis on friendliness, quality and a committment to competitive pricing. During the year an aggressive television advertising campaign was used to project the range of specialty departments, product quality, and variety offered to Sobeys customers.

Through the Lofood Division the Company provides limited variety grocery and produce merchandising with limited service features, a concept sometimes referred to as "box stores". During the year this division continued to expand its operation with new units opened in Glace Bay and Truro, Nova Scotia. One unit



in Grand Falls, Newfoundland was closed. Additional expansion is planned for the 1982 fiscal year including units in the Burlington and Hamilton area being our first retail venture into the Ontario market.

WHOLESALE OPERATIONS

During the year three wholesale cash and carry outlets were opened, one of which resulted from the conversion of a smaller warehouse facility. In addition, the wholesale produce division of Lumsden Brothers was closed after proving unsuccessful. This action noticeably improved the operating contribution of this division.

Although the T.R.A. Newfoundland operations continued to incur operating losses, they were substantially reduced compared to the prior year and a move to profitability in the 1982 year is anticipated.

The wholesale produce subsidiary, Clover Produce, completed its first year of operations following acquisition in 1980. This resulted in a satisfactory profit contribution which is expected to continue in 1982. The product mix of this operation is being expanded to provide institutional grocery and frozen food products in addition to the fresh produce items currently supplied. This will enable an increased service level to hotel, restaurant and institutional customers now being serviced principally with produce items.

During the year significant effort was expended on developing uniform operating systems and the review of distribution requirements in order to improve the efficiency of wholesale operations. Once this program has been completed, an increased level of profit contribution from wholesale operations is anticipated.

FOOD SERVICE OPERATIONS

Two additional Take-A-Break units opened during the year bringing the total number of locations to 18 units. Operations continued to record unsatisfactory levels of performance particularly in the Pizza Hut operations. Although this division is presently forecasting a reduced loss for the 1982 year, actions are currently in process to further reduce losses and focus on a return to profitability. This area of the Company's operations is being closely monitored.

CONSOLIDATED BALANCE SHEET

May 2, 1981

Assets	**1981**	**1980** (in thousands)	**1979**
Current			
Cash	$ 4,459	$ 3,470	$ 3,241
Marketable securities, at cost (quoted market value $65,657,000; 1980 $29,273,000; 1979 $19,518,000)	23,650	19,639	12,807
Receivables, less allowance for doubtful accounts	5,550	5,285	4,435
Income taxes recoverable	12	355	61
Inventories (Note 1)	31,922	26,642	18,735
Prepaid expenses	1,735	1,512	1,355
	67,328	56,903	40,634
Investments and advances (Note 1)	3,620	2,517	812
Property and equipment, at cost			
Land	985	889	609
Buildings and facilities	7,188	7,330	4,595
Equipment	25,104	20,105	15,952
Leasehold improvements	3,240	3,195	2,980
	36,517	31,519	24,136
Less: Accumulated depreciation	11,917	10,438	9,886
	24,600	21,081	14,250
Assets under capital leases, at cost (less accumulated amortization of $1,495,946; 1980 $1,089,261; 1979 $678,385)	2,713	3,110	2,936
	$98,261	$83,611	$58,632

On behalf of the Board

W.M. Sobey, Director

David F. Sobey, Director

Liabilities	**1981**	**1980**	**1979**
		(in thousands)	
Current			
Bank loans (Note 3)	$ 18,591	$ 6,155	$ 3,654
Bankers' acceptances		12,500	2,500
Accounts payable and accrued charges	33,186	30,182	23,894
Income taxes payable	724	44	504
Long term debt due within one year	436	651	217
Capital lease obligations	466	421	291
Current portion of deferred income taxes		585	501
	53,403	50,538	31,561
Capital lease obligations (Note 4)	2,447	2,884	2,797
Long term debt (Note 5)	10,572	11,518	7,352
Minority interest	560	517	491
Deferred income taxes	2,054	1,289	1,050
Shareholders' Equity			
Capital stock (Note 6)	13,623	3,593	3,616
Capital redemption reserve fund	85	79	56
Retained earnings	15,517	13,193	11,709
	29,225	16,865	15,381
	$98,261	$83,611	$58,632

CONSOLIDATED STATEMENT OF EARNINGS

Year Ended May 2, 1981

	1981	1980	1979
		(in thousands)	
Sales	$437,357	$380,153	$307,825
Cost of sales, selling and administrative expenses	426,643	372,963	301,312
	10,714	7,190	6,513
Depreciation	3,042	2,654	2,137
Interest on long term debt	1,534	1,409	1,022
Interest on current debt	3,425	2,596	840
Investment income	(969)	(766)	(506)
	7,032	5,893	3,493
Operating earnings before taxes	3,682	1,297	3,020
Income taxes	1,019	105	1,113
	2,663	1,192	1,907
Minority interest	52	(15)	50
Operating earnings for the year	2,611	1,207	1,857
Gain on sales of securities (net of income taxes of $146,304; 1980 $40,191)	430	684	
Net earnings for the year	$ 3,041	$ 1,891	$ 1,857
Earnings per common share (Note 1)			
From operations	$ 1.04	$ .49	$ .77
Gain on sales of securities	.18	.29	
	$ 1.22	$ .78	$ .77
Cash flow per common share	$ 3.14	$ 2.22	$ 2.01

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended May 2, 1981

	1981	1980	1979
		(in thousands)	
Balance, beginning of year			
As previously reported	$13,132	$11,745	$10,150
Change in accounting for leases		(74)	(54)
Income taxes	61	38	61
As restated	13,193	11,709	10,157
Net earnings for the year	3,041	1,891	1,857
Other adjustments			77
	16,234	13,600	12,091
Dividends paid			
6¼% preference shares, 1966 series	73	74	76
Class A common shares	235	208	208
Class B common shares	114	102	51
Redemption of preference shares	6	23	47
Share issue expenses (net of income taxes of $298,870)	289		
	717	407	382
	$15,517	$13,193	$11,709

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended May 2, 1981

	1981	1980	1979
		(in thousands)	
Source of working capital			
Cash flow from operations consisting of			
Net earnings for the year	$ 3,041	$ 1,891	$ 1,857
Depreciation	3,042	2,654	2,137
Deferred income taxes	765	239	409
Minority interest	43	26	37
Other	426	344	226
	7,317	5,154	4,666
Reduction in investments and advances			1,354
Issue of long term debt	272	5,200	408
Capital lease obligations	103	589	596
Other adjustments			61
Issue of common shares	36		
Issue of preference shares	10,000		
	17,728	10,943	7,085
Use of working capital			
Property, equipment and other assets acquired	6,163	9,074	4,209
Assets under capital leases	10	585	596
Repayment of long term debt (including current maturities)	1,218	1,034	328
Repayment of capital lease obligations	540	502	318
Investments and advances	1,520	2,049	
Dividends paid	422	384	335
Redemption of preference shares	6	23	47
Share issue expenses	289		
	10,168	13,651	5,833
Net working capital provided (used) during year	7,560	(2,708)	1,252
Working capital, beginning of year	6,365	9,073	7,821
Working capital, end of year	$13,925	$6,365	$9,073

Auditors' Report

To the Shareholders of Sobeys Stores Limited

We have examined the consolidated balance sheet of Sobeys Stores Limited as at May 2, 1981, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at May 2, 1981, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New Glasgow, Nova Scotia
June 12, 1981

H. L. Doane and Company
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 2, 1981

1. Accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the company and all subsidiary companies.

The equity method of accounting is used for investments in joint venture companies and in a company in which less than 51% of the voting shares are held.

Depreciation and amortization

Depreciation is charged on a straight line basis over the estimated useful lives of the assets as follows:

Equipment and vehicles	3 - 10 years
Buildings	10 - 40 years

Leasehold improvements are amortized over the term of the related lease for improvements prior to May 3, 1975, and for a term not greater than fifteen years for improvements subsequent to that date.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Leases

Leases meeting certain criteria are accounted for as capital leases. The imputed interest is charged against income and the capitalized value is depreciated on a straight line basis over its useful life. Obligations under capital leases are reduced by rental payments net of imputed interest. All other leases are accounted for as operating leases with rental payments being expensed as incurred.

Earnings per share

Earnings per share amounts are calculated based on the weighted average number of common shares outstanding after providing for preference share dividends accrued to the balance sheet date. No dilution results on conversion of the 1981 series convertible preference shares.

2. Industry segment

The principal business of the Company is the distribution of food products throughout the four Atlantic Provinces, the Gaspe Region of Quebec and Southern Ontario.

3. Bank loans

Bank loans are secured by assignment of certain receivables and marketable securities, and a specific mortgage and first floating charge debenture against assets of a subsidiary company.

4. Long term leases

The future minimum payments under lease agreements extending beyond one year from the balance sheet date approximate:

	Capital Leases	Operating Leases
1982	$ 772,500	$ 5,143,793
1983	749,056	4,968,121
1984	706,264	4,790,801
1985	568,599	4,469,365
1986	502,435	4,187,220
Subsequent years	654,893	39,939,172
Total minimum payments	3,953,747	$63,498,472
Less: Imputed interest at an average rate of approximately 12%	1,040,265	
	2,913,482	
Amounts due within one year	466,376	
Capital lease obligations	$2,447,106	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 2, 1981

5. Long term debt

Sinking fund debentures

Series	Rate	Maturity	1981	1980	1979
E	6%	March 1, 1981	$	$ 430,000	$ 460,000
F	6%	April 1, 1984	490,000	520,000	550,000
G	5¾%	April 15, 1985	260,000	275,000	290,000
H	6%	November 1, 1985	550,000	580,000	610,000
I	7¼%	June 15, 1987	610,000	640,000	670,000
J	8½%	March 1, 1989	640,000	670,000	700,000
K	10½%	September 30, 1997	2,730,000	2,820,000	2,910,000
L	11½%	October 15, 1999	4,850,000	5,000,000	
			10,130,000	10,935,000	6,190,000
Less: Debentures held for sinking fund purposes			440,725	458,596	207,545
			9,689,275	10,476,404	5,982,455
Mortgages					
10¾% maturing in 1984 and 2000			436,981	415,918	864,821
15¾% maturing in 1985			616,975	628,696	
15% maturing in 1982			228,375		
10.3% maturing in 1990			36,952		
Term bank loan maturing in 1982 with interest at a rate fluctuating with the prime rate				647,495	721,387
			11,008,558	12,168,513	7,568,663
Current maturities (less debentures held for sinking fund purposes)			436,711	650,344	217,034
			$10,571,847	$11,518,169	$ 7,351,629

Sinking fund debentures are secured by a floating charge on assets of Sobeys Stores Limited and mortgages are secured by certain lands and buildings of subsidiaries. Annual debt repayment in the next five years is

1982 - $ 627,322 1983 - $404,823 1984 - $1,030,185
1985 - $1,123,242 1986 - $739,001

6. Capital Stock

	1981	1980	1979
Authorized:			
58,263 cumulative, redeemable, preference shares of $20 par value each; issuable in series			
2,000,000 cumulative, redeemable, preference shares of $20 par value each, issuable in series			
3,000,000 Class A non-voting common shares without nominal or par value			
1,500,000 Class B voting common shares without nominal or par value			
Issued and outstanding:			
57,973 6¼% preference shares, 1966 series	$ 1,159,460	$ 1,165,260	$ 1,189,220
500,000 9% convertible preference shares, 1981 series	10,000,000		
1,571,586 Class A common shares	1,775,862	1,739,862	1,739,862
762,000 Class B common shares	687,200	687,200	687,200
	$13,622,522	$ 3,592,322	$ 3,616,282

Changes to authorized capital:

Changes to authorized capital during the year were:

a. The cancellation of all unissued cumulative, redeemable, preference shares of $20 par value each which had been created in 1966.

b. The creation of 2,000,000 cumulative, redeemable, preference shares of $20 par value each issuable in series.

c. The subdivision of Class A and Class B common shares on a 3 for 1 basis.

d. The creation of 750,000 Class A common shares.

On March 18, 1981 500,000 9% cumulative, redeemable, convertible, preference shares 1981 series of $20 par value each were issued for $10,000,000 cash. The 1981 series preference shares are convertible into Class A common shares up to April 1, 1985 at a conversion price of $15.50 per Class A common share and thereafter and up to April 1, 1989 at a conversion price of $16.75 per Class A common share. On December 24, 1980 3,000 Class A common shares were issued for cash.

The 1966 series preference shares are redeemable at par at any time and the Company is required to provide a $30,000 fund each year from which shares may be purchased for redemption.

The 1981 series preference shares are not redeemable prior to April 1, 1982; and thereafter and before April 1, 1985 redeemable at a price of $21 per share only if the weighted average market price of Class A common shares is at least 125% of the then equivalent conversion price; and after April 1, 1985 redeemable at a price of $20.80 per share reducing annually to April 1, 1989 and thereafter redeemable at par. The Company is required to make all reasonable attempts to purchase 5,000 shares in each quarter for cancellation commencing April 1, 1989.

The Company is required to reserve a sufficient number of unissued Class A common shares to enable conversion of all the 1981 series preference shares outstanding.

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7. Contingent liabilities

The Company has undertaken by separate agreements to provide cash to meet any obligations which Sobey Leased Properties Limited is unable or fails to meet until all of its debentures have been paid in full in accordance with their terms. Any deficiency payment made by the Company will be by purchase of fully paid non-assessable 6% redeemable, non-voting preference shares of that company. The aggregate outstanding principal amounts of these debentures is $3,675,000.

The Company is contingently liable as guarantor of loans to a maximum amount of $1,900.000.

The Company has agreed to acquire up to 45,000 of the outstanding cumulative, redeemable, non-voting, $100 par value preference shares of a related company in the event that the issuer fails to redeem 15,000 shares on January 26, 1983, and 30,000 shares on November 15, 1988, or under certain circumstances at an earlier date provided for in the subscription agreement.

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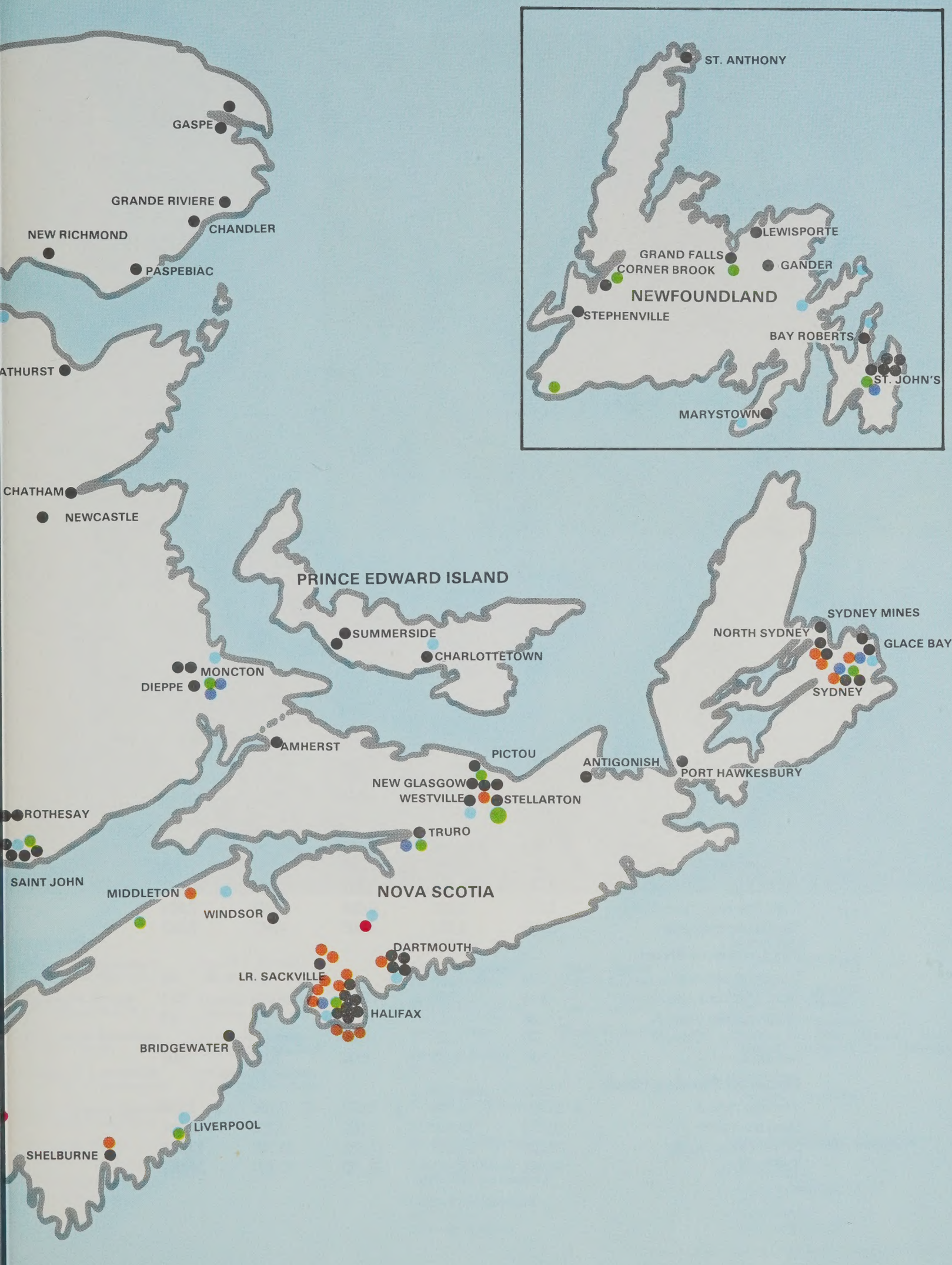
8. Related party transactions

The Company leases certain real property and equipment from related parties. The aggregate net payments during the year under these leases amounted to approximately $5,206,000. The capital lease obligation to a related party amounts to $731,000.

The Company is owed a net amount of $3,432,000 for accumulated advances to companies accounted for on the equity basis.

During the year the Company purchased marketable securities from a related party at the quoted market value of $2,737,782, and sold real property to a related party at the appraised value of $471,000.

RETAIL SUPERMARKET LOCATIONS
PLANNED EXPANSION
WHOLESALE AND CASH & CARRY
FRANCHISED CUSTOMERS
FOOD SERVICE OUTLETS
LOFOOD "BOX" STORES
STE. ANNE DES MONTS
CAMPBELLTON
EDMUNDSTON
NEW BRUNSWICK
WOODSTOCK
FREDERICTON
ONTARIO
PETERBOROUGH
GUELPH
STRATFORD
BURLINGTON
HAMILTON
BRANTFORD
LONDON
TILLSONBURG
YARMOUT


ST. ANTHONY
GASPE
GRANDE RIVIERE
CHANDLER
NEW RICHMOND
PASPEBIAC
LEWISPORTE
GRAND FALLS
GANDER
CORNER BROOK
NEWFOUNDLAND
STEPHENVILLE
BAY ROBERTS
ST. JOHN'S
MARYSTOWN
ATHURST
CHATHAM
NEWCASTLE
PRINCE EDWARD ISLAND
SUMMERSIDE
CHARLOTTETOWN
SYDNEY MINES
NORTH SYDNEY
GLACE BAY
SYDNEY
MONCTON
DIEPPE
AMHERST
PICTOU
ANTIGONISH
PORT HAWKESBURY
NEW GLASGOW
WESTVILLE
STELLARTON
ROTHESAY
TRURO
SAINT JOHN
MIDDLETON
NOVA SCOTIA
WINDSOR
DARTMOUTH
LR. SACKVILLE
HALIFAX
BRIDGEWATER
LIVERPOOL
SHELBURNE

"The Way It Started" Depicted in Sobeys Float

CONSOLIDATED FIVE YEAR SUMMARY

	1981	1980	1979	1978	1977
Operations ('000)					
Sales	$437,357	$380,153	$307,825	$256,389	$236,806
Depreciation	3,042	2,654	2,137	1,969	1,516
Operating earnings	2,611	1,207	1,857	1,037	1,087
Cash flow from operations	7,317	5,154	4,666	3,108	2,850
Capital expenditures	6,173	9,659	4,805	4,947	2,087
Per Common Share					
Operating earnings	$ 1.04	$ .49	$ .77	$ .41	$ .43
Cash flow from operations	3.14	2.22	2.01	1.30	1.23
Dividend paid Class A	.15	.13	.13	.13	.13
Class B	.15	.13	.06		
Net equity	7.74	6.73	6.08	5.39	5.07
Financial Position ('000)					
Working capital	$ 13,925	$ 6,365	$ 9,073	$ 7,760	$ 5,914
Long term debt	10,572	11,518	7,352	7,272	4,651
Shareholders' equity	29,225	16,865	15,381	13,768	13,016
Total assets	98,261	83,611	58,632	50,407	39,562

DIRECTORS

Merritt G. Crawford
New Glasgow, Nova Scotia

James W. Gogan
New Glasgow, Nova Scotia

William G. Lumsden
Burlington, Ontario

Arthur R. Lundrigan
Corner Brook, Newfoundland

J. Skiffington Murchie
New Glasgow, Nova Scotia

Henry B. Rhude
Halifax, Nova Scotia

J. William Ritchie
Halifax, Nova Scotia

David F. Sobey
New Glasgow, Nova Scotia

Donald R. Sobey
Stellarton, Nova Scotia

Frank H. Sobey
Abercrombie, Nova Scotia

William M. Sobey
King's Head, Nova Scotia

OFFICERS

Frank H. Sobey
Honorary Chairman

William M. Sobey
Chairman and Chief
Executive Officer

David F. Sobey
President

J. Skiffington Murchie
Executive Vice-President

D.B. Eddy
Vice-President Personnel

Frank J. Hickey
Vice-President Merchandising

Darrell M. Rushton
Vice-President
Wholesale Operations

Nigel F. Byars
Vice-President Finance,
Treasurer and
Assistant Secretary

Hugh K. Smith
Secretary

AUDITORS

H.R. Doane and Company

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company
Halifax — Saint John — Montreal — Toronto
Winnipeg — Regina — Calgary — Vancouver

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